2022 Inspection B F Borgers CPA PC

(Headquartered in Lakewood, Colorado)

November 7, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2024-038

PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

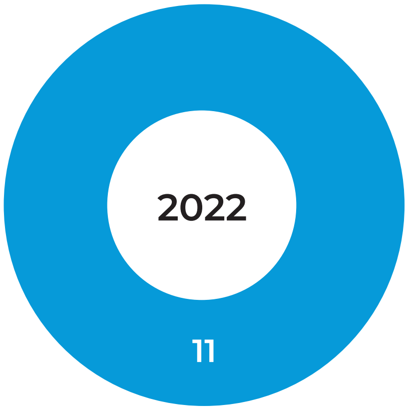
Our 2022 inspection report on B F Borgers CPA PC provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

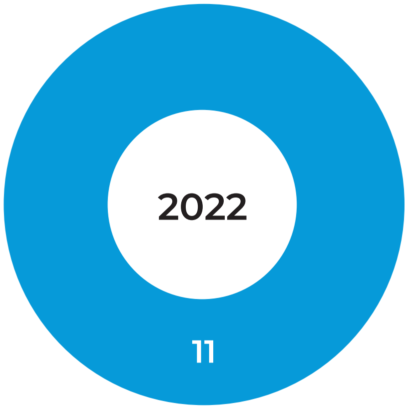
Overview of the 2022 Deficiencies Included in Part I

All of the 11 audits we reviewed in 2022 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's substantive testing of revenue and related accounts, journal entries, business combinations, and debt.



100% Part I.A deficiency rate

- Audits without Part I.A deficiencies
- Audits with Part I.A deficiencies



- Deficiencies in both financial statement and ICFR audits
- Deficiencies in the financial statement audit only
- Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2022 related to performing substantive testing to address a risk of material misstatement, testing an estimate, and evaluating the appropriateness of the issuer's accounting method or disclosure.

The Part I.B deficiencies in 2022 related to audit documentation, engagement quality reviews, audit committee communications, risk assessment, fraud, management communications, auditor tenure, critical audit matters, and Form AP.

The Part I.C deficiencies in 2022 related to partner rotation and audit committee pre-approval.

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2022 INSPECTION

In the 2022 inspection of B F Borgers CPA PC, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 11 audits of issuers with fiscal years ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2022 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
  - **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

  Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2022 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

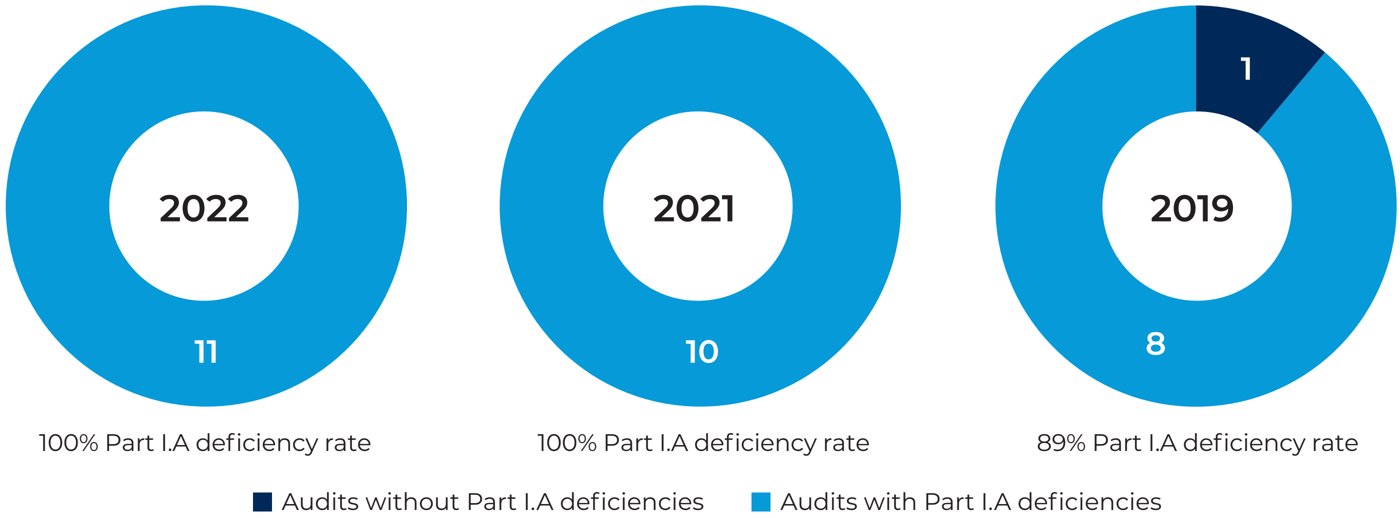
The following information provides an overview of our 2022 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Selected for Review

	2022	2021	2019
Total audits reviewed			
Total audits reviewed	11	10	9
Selection method			
Risk-based selections	9	10	9
Random selections	2	0	0
Total audits reviewed	**11**	**10**	**9**
Principal auditor			
Audits in which the firm was the principal auditor	11	10	9
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**11**	**10**	**9**
Audit type			
Integrated audits of financial statements and ICFR	0	0	0
Financial statement audits only	11	10	9
Total audits reviewed	**11**	**10**	**9**

Part I.A Deficiencies in Audits Reviewed

In 2022, nine of the 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021 and 2019, all audits appearing in Part I.A were selected for review using risk-based criteria.

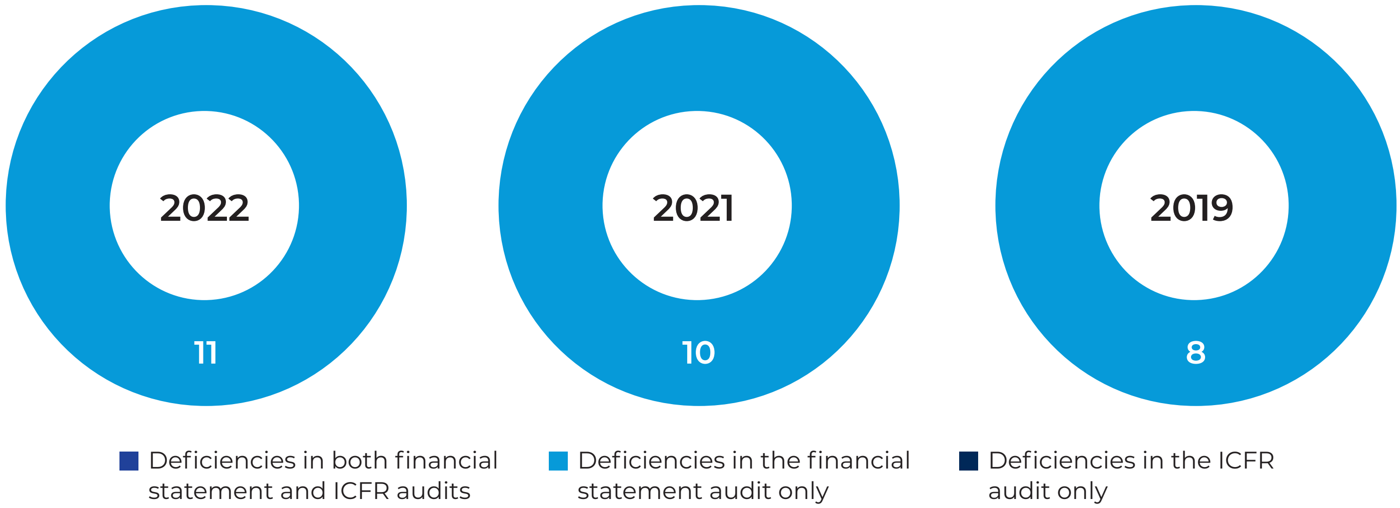


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a Part I.A or Part I.B deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



Our 2022 inspection procedures involved two audits for which the issuers, unrelated to our review, restated their financial statements to correct misstatements.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2022	2021	2019
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	11	10	6
Did not sufficiently test an estimate	5	8	7
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	5	2	5

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2022			2021			2019		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	6	5	**Revenue and related accounts**	9	6	**Revenue and related accounts**	9	6
Journal entries	6	3	**Cash and cash equivalents**	5	0	**Goodwill and intangible assets**	5	4
Business combinations	3	3	**Goodwill and intangible assets**	3	3	**Cash and cash equivalents**	4	0
Debt	3	3	**Financial reporting**	2	2	**Business combinations**	3	2
Related party transactions	2	2	**Inventory**	2	0	**Going concern**	2	2

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2022		2021		2019	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	5	6	6	9	6	9
Journal entries	3	6	2	10	0	9
Business combinations	3	3	2	2	2	3
Debt	3	3	0	0	1	2
Goodwill and intangible assets	0	0	3	3	4	5

Revenue and related accounts: The deficiencies in 2022, 2021, and 2019 related to substantive testing of revenue, accounts receivable, and deferred revenue.

Journal entries: The deficiencies in 2022 related to not performing journal entry testing to address the risk of fraud. The deficiencies in 2021 related to not performing journal entry testing to address the risk of fraud and not addressing journal entries that were identified as having no appropriate business purpose.

Business combinations: The deficiencies in 2022 and 2021 primarily related to substantive testing of the fair value, existence, and completeness of assets acquired and liabilities assumed. The deficiencies in 2019 primarily related to substantive testing of significant assumptions and data used by the issuer to determine the fair values of acquired assets.

Debt: The deficiencies in 2022 related to substantive testing of debt and evaluating the appropriateness of the issuer's accounting for debt and related disclosures. The deficiency in 2019 related to a departure from GAAP related to the accounting for debt.

Goodwill and intangible assets: The deficiencies in 2021 and 2019 primarily related to evaluating goodwill and intangible assets for possible impairment.

Auditing Standards Associated with Identified Part I.A Deficiencies

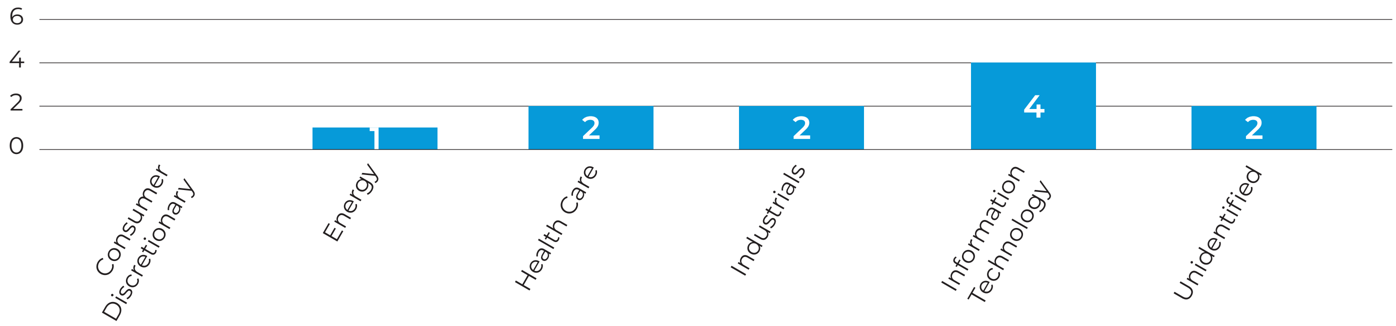
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021	2019
AS 1105, *Audit Evidence*	10	9	9
AS 1201, *Supervision of the Audit Engagement*	1	0	0
AS 1210, *Using the Work of a Specialist*	-	-	4
AS 1215, *Audit Documentation*	0	1	0
AS 2105, *Consideration of Materiality in Planning and Performing an Audit*	1	0	0
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	32	26	6
AS 2310, *The Confirmation Process*	0	1	9
AS 2315, *Audit Sampling*	1	1	1
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	3	1	0
AS 2405, *Illegal Acts by Clients*	1	0	0
AS 2410, *Related Parties*	2	2	1
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	0	0	2
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	9	13	0
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	0	0	12
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	0	0	13
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (effective for fiscal years ending before December 15, 2020)	0	0	1
AS 2810, *Evaluating Audit Results*	8	6	14
AS 2820, *Evaluating Consistency of Financial Statements*	0	0	1
AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*	0	0	1

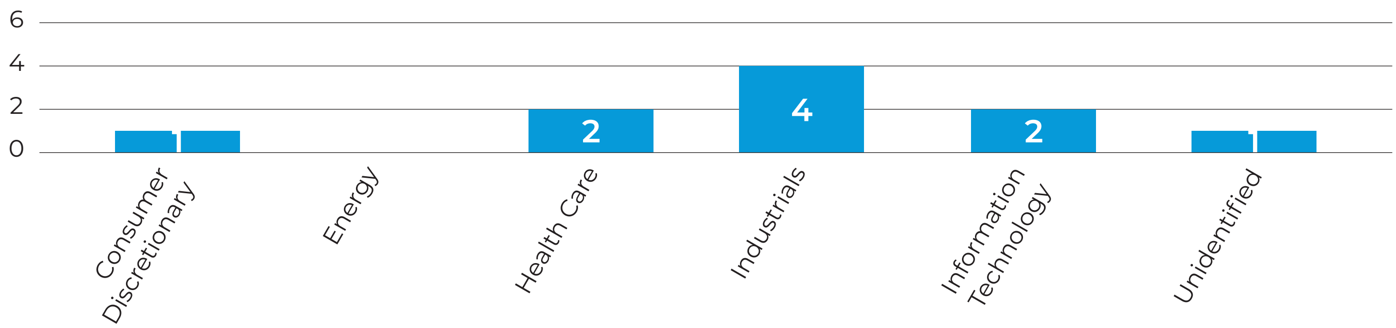
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where no industry data for an issuer is available or where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

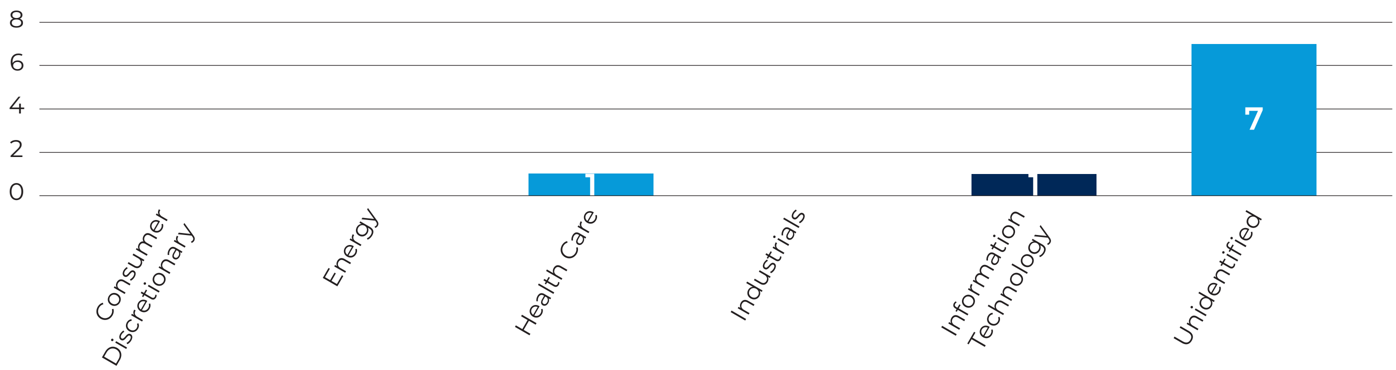
2022



2021

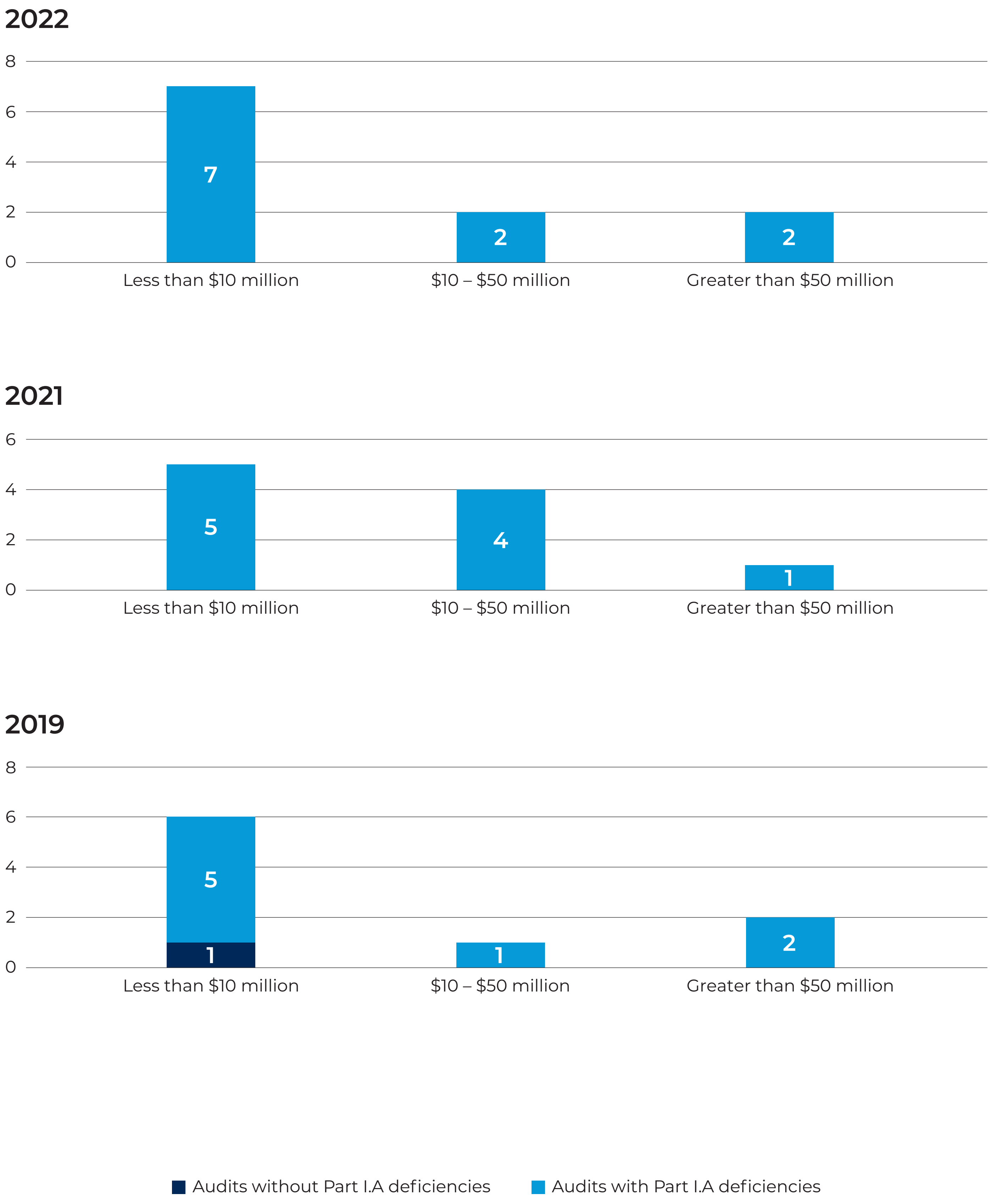


2019



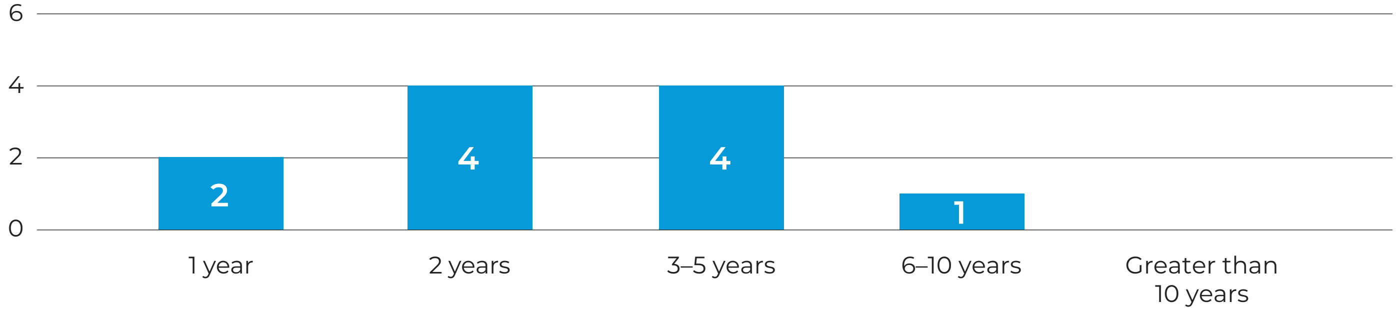
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

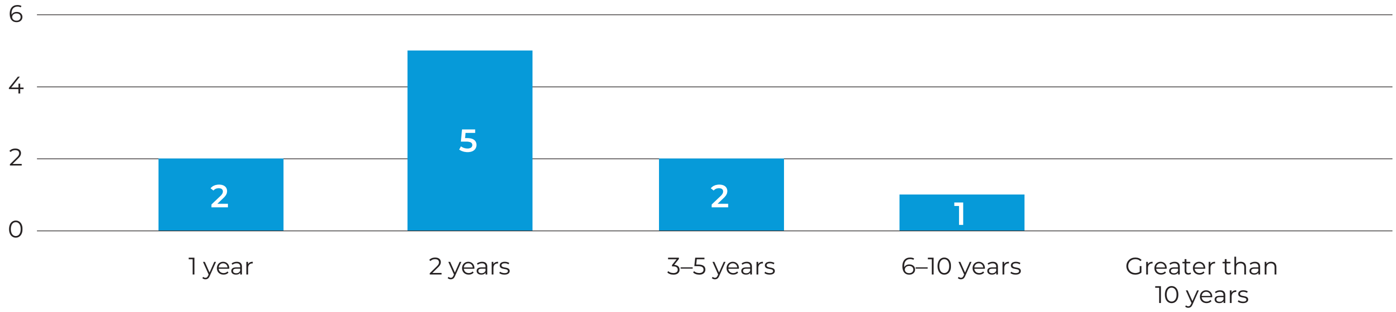


Inspection Results by the Firm's Tenure on the Issuer

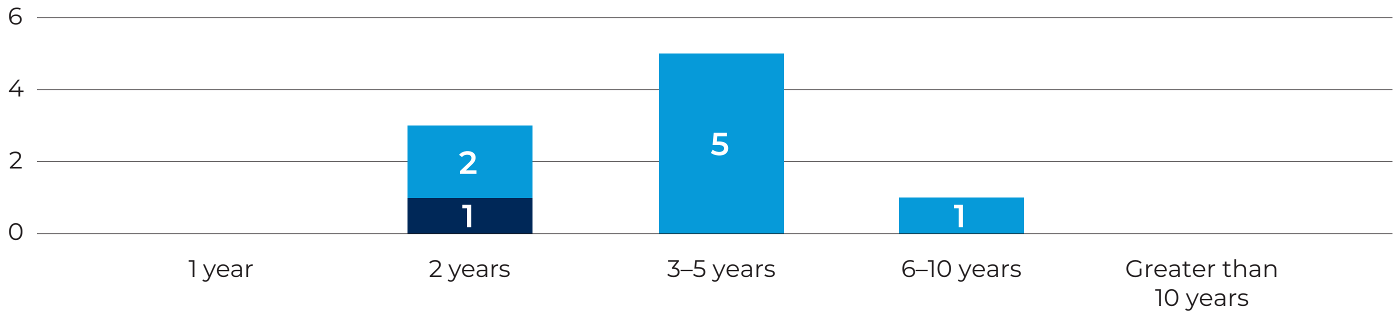
2022



2021



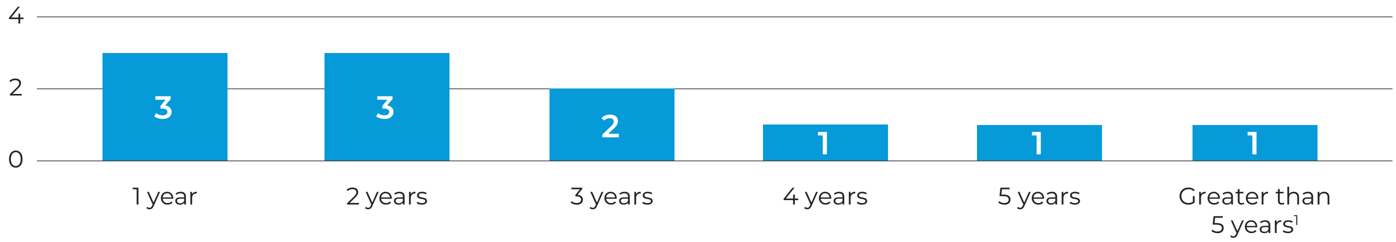
2019



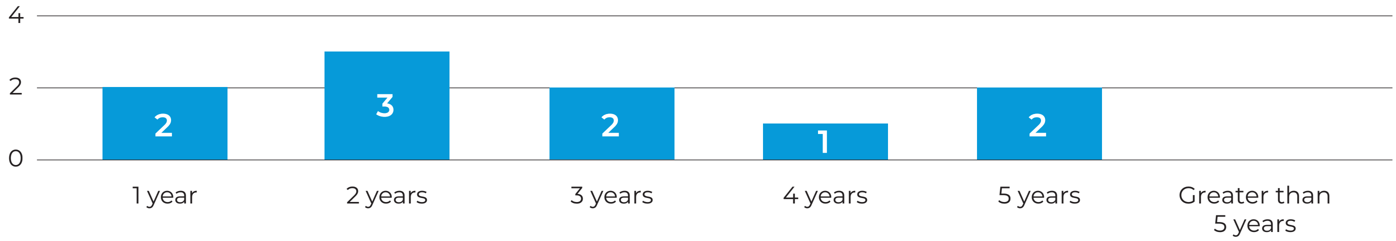
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by the Engagement Partner's Tenure on the Issuer

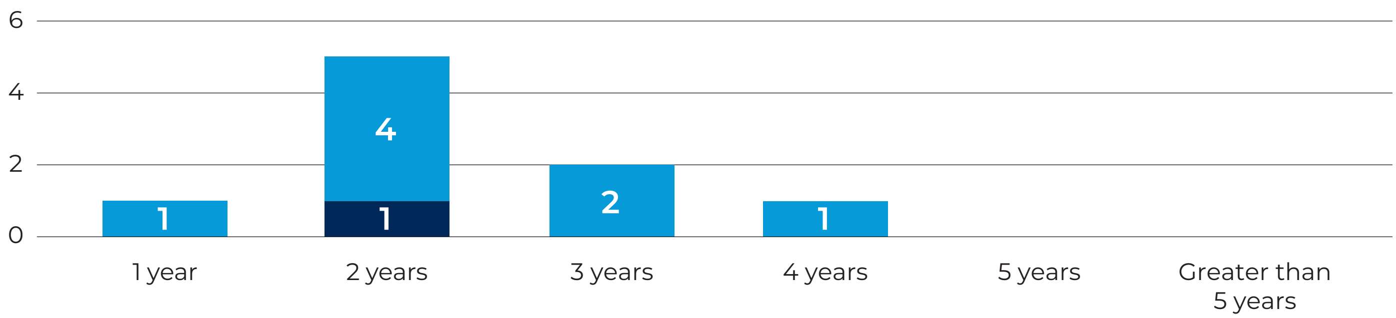
2022



2021



2019



■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

[1] See Part I.C for this instance of potential non-compliance with SEC Rules related to an audit partner serving for more than the maximum period permitted.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

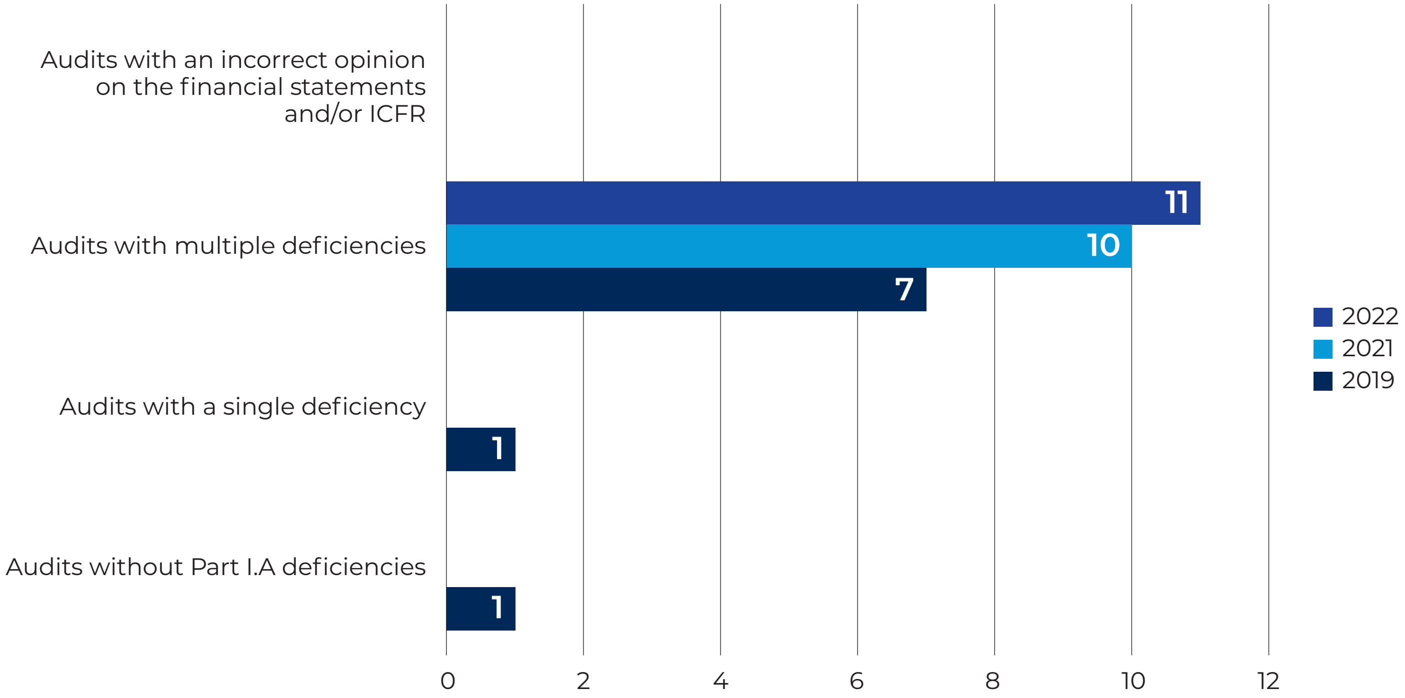
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue and Related Accounts** and **Business Combinations**.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts**, for which the firm identified a fraud risk:

The firm did not perform substantive procedures to test certain revenue beyond comparing it to the issuer's information system. (AS 2301.08 and .13) The firm did not perform substantive procedures to test a second type of revenue beyond obtaining evidence that the issuer received cash for certain transactions. (AS 2301.08 and .13)

For a third type of revenue, the firm selected certain revenue transactions for testing. The firm did not perform substantive procedures to test those revenue transactions beyond obtaining evidence that the issuer received cash for the transactions. (AS 2301.08 and .13)

The firm did not perform any substantive procedures to test certain receivables related to revenue. (AS 2301.08) In addition, the firm did not perform any substantive procedures to test the issuer's allowance for doubtful accounts. (AS 2501.07)

The firm did not perform any substantive procedures to test liabilities related to revenue. (AS 2301.08)

Unrelated to our review, the issuer reevaluated its accounting for the allowance for doubtful accounts, certain receivables related to revenue, and liabilities related to revenue and concluded that material misstatements existed that had not been previously identified. The issuer subsequently corrected these misstatements in a restatement of its financial statements.

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses and engaged specialists to determine the fair value of certain assets and contingent consideration at the acquisition date. The following deficiencies were identified:

- The firm did not perform substantive procedures to test the fair value of these assets and the contingent consideration beyond obtaining and reading the company's specialists' reports. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialists as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)
- The firm did not perform any substantive procedures to test the existence of the other assets acquired and the completeness of the liabilities assumed. (AS 2301.08)
- The firm did not perform any substantive procedures to test the fair value of the other assets acquired and the liabilities assumed. (AS 2501.07)

Issuer B – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, **Revenue**, **Business Combinations**, and **Journal Entries**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether (1) the work was performed and documented, (2) the objectives of the procedures were achieved, and (3) the results of the work support the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm did not perform substantive procedures to test revenue beyond comparing certain transactions to issuer-prepared documentation and cash receipts. (AS 2301.08 and .13)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses. The firm did not perform substantive procedures to test the acquisitions beyond testing the valuation of stock that was issued in connection with the acquisitions. (AS 2301.08)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer C – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Debt** and **Other Income**.

Description of the deficiencies identified

With respect to **Debt**:

The firm did not perform any substantive procedures to evaluate whether the issuer's accounting for, and presentation of, convertible notes payable, including warrants, were in conformity with relevant GAAP. (AS 2301.08)

The issuer settled certain debt by issuing shares. The firm did not perform any substantive procedures to test this transaction. (AS 2301.08)

Unrelated to our review, the issuer reevaluated its (1) accounting for, and presentation of, convertible notes payable, including warrants, and (2) accounting for the settlement of debt and concluded that material misstatements existed that had not been previously identified. The issuer subsequently corrected these misstatements in a restatement of its financial statements.

With respect to **Other Income**:

The issuer recognized other income as a result of cancelling certain accrued expenses due to the expiration of the statute of limitations on such liabilities. The issuer engaged external counsel ("company's specialist") to evaluate these claims under the local law. The firm did not perform substantive procedures to test other income beyond obtaining and reading the legal letters from the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2301.08)

Issuer D – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Related Party Transactions**, **Certain Income Statement Transactions**, and **Investment Securities**.

Description of the deficiencies identified

With respect to **Related Party Transactions**, for which the firm identified a fraud risk:

The firm did not perform any substantive procedures to test related party transactions. (AS 2410.12) The firm, however, identified that certain related party transactions may have been illegal acts and communicated the potential illegal acts to the issuer's Board of Directors. The issuer's Board of Directors engaged legal counsel ("company's specialist") to evaluate these matters. The firm did not perform sufficient procedures to determine whether illegal acts had occurred, because it limited its procedures to obtaining and reading a legal letter from the company's specialist and did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2405.10 and .11)

With respect to **Certain Income Statement Transactions**:

The firm did not perform substantive procedures to test certain income statement transactions beyond obtaining and reading a legal agreement. (AS 2301.08)

With respect to **Investment Securities**:

The firm did not perform substantive procedures to test investment securities beyond comparing the balance to the brokerage statement obtained from the issuer. (AS 2301.08)

Issuer E – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Planning Materiality** and **Certain Liabilities**.

Description of the deficiencies identified

With respect to **Planning Materiality**:

The firm did not establish a materiality level for the financial statements as a whole that was appropriate in light of the particular circumstances and consideration of the relevant factors, because the firm established separate materiality levels for balance sheet accounts and income statement accounts. (AS 2105.06)

With respect to **Certain Liabilities**, for which the firm identified a significant risk:

The firm did not perform substantive procedures to test certain liabilities beyond obtaining the issuer's schedules and recalculating certain amounts. (AS 2301.08 and .11)

Issuer F – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Certain Assets**, **Revenue**, and **Related Party Transactions**.

Description of the deficiencies identified

With respect to **Certain Assets**:

The issuer reported certain assets. The following deficiencies were identified:

- The firm did not perform any substantive procedures to establish that the issuer had control and ownership of these assets. (AS 2301.08)
- The firm did not perform substantive procedures to test the existence, valuation, and completeness of these assets beyond tracing quantities and prices to schedules provided by the issuer. (AS 2301.08)

- The firm did not identify and evaluate a GAAP departure related to the issuer's disclosure that these assets were current assets and the issuer's classification of them as non-current assets on the balance sheet. (AS 2810.03, .30, and .31)
- The firm did not identify and evaluate the issuer's omission of disclosures related to the accounting policies for these assets that were required by FASB ASC Topic 235, *Notes to the Financial Statements*. (AS 2810.30 and .31)
- The firm did not evaluate whether the issuer's presentation of these assets was in conformity with GAAP. (AS 2301.08)

With respect to **Revenue**:

The firm did not perform substantive procedures to test revenue beyond comparing it to a schedule provided by the issuer. (AS 2301.08) In addition, the firm did not identify and evaluate the issuer's omission of disclosures related to the accounting policies for revenue recognition that were required by FASB ASC Topic 235. (AS 2810.30 and .31)

With respect to **Related Party Transactions**, for which the firm identified a significant risk:

The firm did not perform substantive procedures to test a related party payable beyond inquiry and confirming the amount with the related party who was an executive officer of the issuer. (AS 2410.12)

Issuer G – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations**, **Convertible Notes and a Derivative Liability**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Business Combinations**:

During the year, the issuer acquired several businesses and engaged a specialist to determine the fair value of the acquired intangible assets and goodwill at the acquisition dates. The following deficiencies were identified:

- The firm did not perform substantive procedures to test certain acquisitions beyond obtaining and reading the issuer's accounting memorandum and the valuation reports prepared by the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2301.08)
- The firm did not perform substantive procedures to test another acquisition beyond obtaining and reading the purchase agreement, settlement statement, and valuation report prepared by the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2301.08)

With respect to **Convertible Notes and a Derivative Liability**:

During the year, the issuer issued convertible notes and recorded a derivative liability related to the notes. The issuer engaged a specialist to determine the fair value of the derivative liability on the issuance date. The following deficiencies were identified:

- The firm did not perform substantive procedures to test the convertible notes beyond obtaining and reading certain legal agreements, including not evaluating whether the issuer's accounting for, and presentation of, the convertible notes and related derivative liability were in accordance with FASB ASC Topic 470, Debt, and FASB ASC Topic 815, *Derivatives and Hedging*. (AS 2301.08)

- The firm did not perform substantive procedures to test the valuation of the derivative liability as of the issuance date beyond obtaining and reading the company's specialist's valuation report. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)
- The firm did not perform any substantive procedures to test the valuation of the derivative liability at year end and the unrealized gain on the derivative liability for the year. (AS 2501.07)
- The firm did not identify and evaluate the issuer's omission of disclosures related to the inputs, and quantitative information about significant unobservable inputs, used to measure the fair value of the derivative liability that were required by FASB ASC Topic 820, *Fair Value Measurement*. (AS 2810.30 and .31)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer H

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, an **Investment**, and **Variable Interest Entities (VIEs)**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm performed procedures to test one revenue transaction. The firm did not perform substantive procedures to test the remaining revenue transactions beyond tracing them to cash receipts and, for certain of these transactions, to certain fee information provided by customers, for which the firm traced the underlying fee rates to customer contracts. Further, the firm did not perform any procedures to evaluate certain evidence, included in the work papers, that indicated the issuer may have recognized revenue on the cash basis of accounting. (AS 2301.08 and .13; AS 2810.03)

The firm did not identify and evaluate the issuer's omission of disclosures related to the amount of revenue recognized in the current year from performance obligations satisfied (or partially satisfied) in previous years that were required by FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31)

With respect to an **Investment**:

The firm did not perform any substantive procedures to test an investment. (AS 2301.08)

With respect to **VIEs**:

The firm did not perform substantive procedures to test the issuer's consolidation of VIEs, beyond obtaining and reading an issuer memorandum. (AS 2301.08)

Issuer I – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Accounts Receivable**, **Inventory**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm selected key item transactions for testing revenue. The firm did not perform substantive procedures to test those transactions beyond comparing them to invoices. (AS 2301.08 and .13) In addition, the firm did not perform any substantive procedures to test the remaining population of revenue transactions. (AS 1105.27; AS 2301.08 and .13)

With respect to **Accounts Receivable**:

The firm selected an account receivable for testing but did not perform substantive procedures to test it beyond comparing it to invoices. (AS 2301.08) In addition, the firm did not perform any substantive procedures to test whether the account receivable was fully collectible. (AS 2501.07)

With respect to **Inventory**:

The firm did not perform substantive procedures to test inventory beyond comparing the balance to an issuer-produced report. (AS 2301.08)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer J

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Cash** and **Warrants**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Cash**:

The firm did not perform substantive procedures to test cash beyond comparing the amount to a copy of the bank statement obtained from the issuer. (AS 2301.08)

With respect to **Warrants**:

The issuer engaged a specialist to determine the fair value of certain warrants at year end. The firm did not perform substantive procedures to test the fair value of these warrants beyond obtaining and reading the valuation report prepared by the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

The firm did not identify and evaluate the issuer's omission of disclosures related to the inputs, and quantitative information about significant unobservable inputs, used to measure the fair value of these warrants that were required by FASB ASC Topic 820, *Fair Value Measurements*. (AS 2810.30 and .31)

Issuer K – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Inventory**, **Derivatives**, and **Expenses**.

Description of the deficiencies identified

With respect to **Inventory**:

The firm did not perform substantive procedures to test the excess or obsolete inventory reserve and inventory that had been written off during the year, beyond obtaining and reading an issuer memorandum. (AS 2301.08; AS 2501.07)

With respect to **Derivatives**:

The issuer reported convertible debt agreements that included embedded conversion options; the issuer accounted for these options as derivative liabilities. The firm's approach for substantively testing the fair value of the derivative liabilities was to test the issuer's process. The following deficiencies were identified:

- The firm did not perform any substantive procedures to evaluate whether the issuer's accounting for the conversion options embedded in the convertible debt agreements as derivative liabilities was in conformity with FASB ASC Topic 815, *Derivative and Hedging Activities*. (AS 2301.08)
- The firm did not evaluate the reliability of certain data the issuer used to determine the fair value of the derivative liabilities. (AS 1105.04 and .06)
- The firm did not perform sufficient substantive procedures to evaluate whether the method used by the issuer to develop the fair value of the derivative liabilities was in conformity with the requirements of GAAP and appropriate for the nature of the account, including whether the data was appropriately used and significant assumptions were appropriately applied under GAAP, because the firm did not test the formulas embedded in the issuer's schedules to determine whether they produced substantially the same result as the model the issuer purportedly used. (AS 2501.10)
- The firm did not identify and evaluate the issuer's omission of disclosures related to the inputs, and quantitative information about the significant unobservable inputs, used to measure the fair value of the derivative liabilities that were required by FASB ASC Topic 820, *Fair Value Measurement*. (AS 2810.30 and .31)

With respect to **Expenses**:

To test certain expenses, the firm selected a sample of transactions. The sample size the firm used in this substantive procedure was too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its sample size, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23, and .23A)

The firm did not perform substantive procedures to test payroll expense beyond comparing it to issuer-provided payroll reports prepared by an external party and tax filings. (AS 2301.08)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In eight of 11 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and/or who reviewed the work. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In one of 11 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and the date such work was completed. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In two of 11 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In two of 11 audits reviewed, the firm did not obtain the required engagement quality review for the audit. In this instance, the firm was non-compliant with AS 1220, *Engagement Quality Review*.
- In eight of 11 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the engagement quality reviewer, including evidence that the engagement quality reviewer evaluated the engagement team's responses to the significant risks identified. In these instances, the documentation of the engagement quality review was non-compliant with AS 1220, *Engagement Quality Review*.
- In one of 11 audits reviewed, the firm did not make any of the required communications to the issuer's audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 11 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) the firm's evaluation of the issuer's ability to continue as a going concern; (2) all of the issuer's critical accounting policies and practices; and (3) the firm's evaluation of the quality of the issuer's financial reporting. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 11 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to all of the issuer's critical accounting estimates. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 11 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the results of the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In nine of nine audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the name, location, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In three of 11 audits reviewed, the firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In four of 11 audits reviewed, the firm inaccurately communicated to the issuer's audit committee that it identified misstatements that the issuer corrected. In addition, in two of these audits, the firm inaccurately communicated that there were uncorrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In six of 11 audits reviewed, the firm did not establish an understanding of the terms of the audit engagement with the audit committee, record such understanding in an engagement letter, and provide the engagement letter to the audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In three of 11 audits reviewed, the firm did not provide a copy of the management representation letter to the issuer's audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In six of 11 audits reviewed, the firm did not provide to management and the audit committee the required communications in writing of all material weaknesses identified during the audit. In these instances, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.
- In three of 11 audits reviewed, the firm did not identify and assess the risks of material misstatement related to one or more significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In three of 11 audits reviewed, the firm did not inquire of the audit committee, management, and/or others within the company about the risks of material misstatement, including fraud risks. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In two of 11 audits reviewed, the firm did not identify and assess the risks of material misstatement at the assertion level for one or more significant accounts and disclosures it identified. In addition, in one of these audits, the firm did not presume that there was a fraud risk involving improper revenue recognition without having an appropriate rationale for how this presumption was overcome. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In three of six audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In two of 11 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to its evaluation of the issuer's identification of, accounting for, and disclosure of its relationships and transactions with related parties. In these instances, the firm was non-compliant with AS 2410, *Related Parties*.

- In one of 11 audits reviewed, the firm did not make a required communication to management related to an identified misstatement. In this instance, the firm was non-compliant with AS 2810, *Evaluating Audit Results*.

- In one of four audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In one of seven audits reviewed, the engagement team did not perform any procedures to comply with the requirements related to critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In one of seven audits reviewed, the firm's audit report stated that there were no critical audit matters, but the firm did not perform procedures to determine whether or not matters that were communicated to the audit committee and that relate to accounts or disclosures that are material to the financial statements, were critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In five of seven audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated, or required to be communicated, to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In one of seven audits reviewed, the engagement team did not take into account certain required factors in determining whether or not certain matters were critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In one of seven audits reviewed, the firm's communication of critical audit matters in the audit report did not describe for certain matters the principal considerations that led the firm to determine that the matter was a critical audit matter. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In three of seven audits reviewed, the firm's communication of one or more critical audit matters in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In five of 11 audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In four of 11 audits reviewed, the firm's report on Form AP included inaccurate information regarding the audit report date or end date of the most recent period's financial statements. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In two of 11 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by an other accounting firm. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that we identified, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

- Under Rule 2-01(c)(6) of Regulation S-X, an accountant is not independent if the performance of services by certain audit partners for more than the maximum period permitted occurs. We identified one instance for one issuer in 11 audits reviewed in which this circumstance appears to have occurred.
- Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified six instances across six issuers in 11 audits reviewed in which this circumstance appears to have occurred.

Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.